

ARIZONA WATER BANKING AUTHORITY
Draft Minutes

September 20, 2017
Arizona Department of Water Resources



AUTHORITY MEMBERS
Thomas Buschatzke, Chair
Ray L. Jones, Vice-Chair
Kathryn Sorensen, Secretary
Pamela Pickard
Steven Moss

EX OFFICIO MEMBERS
The Honorable Steve Yarbrough
The Honorable J.D. Mesnard

Welcome/Opening Remarks

Chair Thomas Buschatzke welcomed attendees. Vice-Chair Ray Jones and Secretary Kathryn Sorensen attended in person. Lisa Atkins, CAWCD Board president attended in lieu of Pamela Pickard. *Ex-officio* members, President Steve Yarbrough and Speaker J.D. Mesnard, were not in attendance.

Chair Buschatzke announced Commission member Steven Moss's resignation from the AWBA to pursue a judgeship in Mohave County. Chair Buschatzke read a resolution honoring Mr. Moss and asked for a motion. Secretary Sorensen moved to approve the resolution. Vice-Chair Jones seconded the motion and the resolution was approved.

Approval of Minutes

Chair Buschatzke asked for a motion to approve the minutes from the June 28, 2017 regular quarterly meeting. Vice-Chair Jones moved to approve the minutes. Secretary Sorensen seconded the motion, and the minutes were approved.

Water Banking Staff Activities

Monthly Deliveries. Ms. O'Connell, AWBA Manager, reviewed deliveries for 2017, indicating that the AWBA is scheduled to store 17,630 acre-feet this year. The AWBA is behind schedule because the Central Arizona Irrigation & Drainage District (CAIDD) has not yet taken its water and the Queen Creek Irrigation District (QCID) turned back 3,000 acre-feet of water. Ms. O'Connell expects CAIDD to take its water in the next few months. Just under 1,000 acre-feet of QCID's water was delivered to the Cortaro Marana Irrigation District (CMID) in the Tucson AMA. The remaining 2,000 acre-feet will be delivered to the Agua Fria Recharge Project in the Phoenix AMA.

Credit Update. Ms. O'Connell explained that no long-term storage credit purchases were made in the last quarter, but the AWBA expects to secure 12,570 acre-feet credits from Tucson Water within the next two months using \$2.86 million in 4¢ tax monies reserved by the CAWCD Board for this purpose. This will mark the last year of the AWBA's three-year agreement with Tucson Water. Staff of both organizations are working on extending the agreement. Ms. O'Connell also indicated that two other agreements will be discussed later in the meeting.

Colorado River Status Update. Jeff Inwood, ADWR Colorado River Management, gave an update on Colorado River Basin conditions (available on-line). As of September 14, 2017, total system storage is at 56% of capacity or 33.183 million acre-feet (MAF): 61% capacity in Lake Powell and 39% capacity in Lake Mead. Unregulated inflows will be just over 12 million acre-feet for water year 2017. The August 24-Month Study indicates the elevation in Lake Mead will be at 1,083.5 feet at year-end, 8.5 feet above the Tier 1 shortage level. As a result, there will be no shortage declaration in 2018.

Elevations in Lake Mead are also projected to remain above Tier 1 shortage levels by the end of 2018 with the most probable elevation being 1,079.5 feet. Mr. Inwood described the results of conservation efforts in terms of feet of elevation rise in Lake Mead. Conservation from 2014 through 2016 (770,000 acre-feet) resulted in 10 feet of elevation gain. Based on modeling, conservation of 590,000 acre-feet in 2017 is expected to provide an additional 7 feet, and 160,000 acre-feet in 2018 is projected to provide another 2 feet for a cumulative total of 20 feet.

Mr. Inwood reviewed future shortage probabilities indicating that the likelihood of any shortage in 2019 has been reduced to 15%, roughly half of the 31% projected in the April 24-Month Study of this year, but probabilities have increased in 2020 and beyond by 10-15%.

Chair Buschatzke asked if system conservation efforts were included in the future shortage probabilities. Mr. Inwood replied saying system conservation efforts have only been modeled through 2019 for the 24-Month Study, but the elevations from that study are incorporated into the modeling for the CRSS five-year probability tables.

CAP System Update. Marcus Shapiro, CAWCD Water Systems Supervisor, described Lake Mead conservation efforts implemented since the last AWBA meeting in June, which include an additional 40,000 acre-feet made available under an agreement between the Bureau of Reclamation and the Gila River Indian Community and 10,080 acre-feet made available by the Tohono O'odham Nation. Chair Buschatzke asked if the 185,000 acre-feet CAWCD decided to leave in Lake Mead this year will continue to be retained and be incorporated into the modeling. Mr. Shapiro responded yes saying that this volume has already been incorporated into the modeling consistent with CAWCD's 2017 Plan of Operation. The roughly 50,000 acre-feet of additional conservation will bring the total conservation facilitated by CAWCD in 2017 to 280,000 acre-feet. Mr. Buschatzke thanked CAWCD for their efforts and remarked that as shown in Mr. Inwood's presentation these conservation efforts can and do make a difference.

Recovery Planning Update. Laura Grignano, CAWCD Senior Policy Analyst, gave an update on recovery planning. In addition to meeting regularly with AWBA and ADWR staff to update modeling and to plan for increased engagement with stakeholders early next year, CAWCD also established a task force on water quality standards for water that may be introduced into the canal. Ms. Grignano described a blending proposal submitted at the last task force meeting by several water providers in the Phoenix and Tucson areas, including the Gila River Indian Community and Salt River Project. The concept of the proposal involves having operational maximum standards that are monitored throughout the system to protect downstream users. This approach would require a new CAP water quality model and possibly new staff to implement the new model. The task force asked the group to continue to work through issues associated with "not to exceed values" identified under the proposal. The next task force meeting is scheduled for October 19th.

She indicated that CAWCD had also completed the 2017 test well and related hydrologic tests at Tonopah Desert Recharge Project that will provide better water quality data and aquifer parameters. Staff also continues to develop recovery exchange agreements with stakeholders and is exploring underutilized wells near the CAP canal

and storage facilities for potential recovery well use.

Vice-Chair Jones lauded efforts by the task force to look at blending as this will reduce costs. Secretary Sorenson noted that as recovery planning progresses and there is a better understanding of how it will take place both physically and legally, it will be important that providers know how recovery will play out financially including where monies will come from. Chair Buschatzke applauded CAWCD for creating the task force and asked if the System Use Agreement will need to be amended as a result of the work. Ms. Grignano responded that the agreement states that water quality standards will need to be addressed, but that it is unclear if an amendment would be required. Ms. Atkins added that it was on this premise that she created the water quality task force. Chair Buschatzke asked if the proposal will trigger another round of formal consultation with Tribes. Ms. Grignano responded that it would, and that Reclamation had indicated the process would be initiated once the proposal is submitted.

Agreements for Purchase of Long-Term Storage Credits

Ms. O'Connell briefed Commission members on two separate credit purchase agreements: one with the City of Surprise and one with the City of Peoria. She noted the agreements were consistent with previous purchase agreements. The agreement with the City of Surprise is for a one-time purchase of 9,082 acre-feet of CAP water credits in 2017 for a total cost of \$2 million roughly \$220/acre-foot. The cost is the same as the AWBA's cost to accrue an equivalent volume of credits based on CAP 2017 water storage and delivery costs factoring in the 5% cut to the aquifer and 1% in evaporation losses. The AWBA will be using Maricopa County 4¢ tax monies previously reserved by the CAWCD Board to pay for this purchase. The agreement was approved by the City of Surprise the previous day, September 19, 2017. Chair Buschatzke asked for a motion. Vice-Chair Jones moved to approve the Purchase and Sale Agreement for Long-term Storage Credits between the AWBA and the City of Surprise for the purchase of 9,082.24 acre-feet of Central Arizona Project water long-term storage credits at a cost of \$2 million using funds in the Maricopa County subaccount of the Arizona Water Banking Fund. Secretary Sorenson seconded motion. Chair Buschatzke asked for public comment. Hearing none, Chair Buschatzke asked for a vote and the agreement was unanimously approved.

Ms. O'Connell provided an overview of the agreement with the City of Peoria indicating that the agreement has a five-year term and includes the purchase of up to 6,500 acre-feet of credits per year determined annually through mutual agreement between the parties. As with the City of Surprise agreement, the price is based on CAWCD's annual water delivery and storage costs grossed up for losses and the cut to the aquifer. In 2018, the AWBA is proposing to purchase the full 6,500 acre-feet using just over \$1.5 million in Maricopa County 4¢ tax revenues (roughly \$232/acre-foot), subject to reservation by the CAWCD Board. Like Surprise, the City of Peoria approved the agreement on September 19, 2017.

Vice-Chair Jones asked how firm the first-year volume is and what is expected in future years. While relatively firm, Ms. O'Connell responded saying 2018 volumes are still subject to CAWCD reserving 4¢ revenues through the AWBA's Plan of Operation process. She anticipates similar volumes in subsequent years.

Ms. O'Connell reminded the Commission of the process to pay the costs associated with each agreement when using ad valorem tax monies. For Surprise, the next step involves a request that the CAWCD Board approve an amendment to the 4¢ tax resolution releasing the funds to the Arizona Water Banking Fund for payment of the credit purchase invoice. For Peoria, since the purchase is for 2018, the process will involve the approval of a reservation of the 4¢ tax funds by the CAWCD Board to be used for credit purchases as identified in the 2018 Plan of Operation. If the CAWCD Board reserves the funds, then in 2018 the CAWCD will need to amend its resolution to release the funds to the Water Banking Fund so the invoice can be paid.

Ms. Atkins expressed support for the agreement because costs are based on annual CAP costs and contingent on the CAWCD Board reserving funds through the Plan of Operation. Secretary Sorenson described the agreements as innovative for both cities and the AWBA. Chair Buschatzke asked for a motion. Secretary Sorenson moved for the approval of the Purchase and Sale Agreement for Long-term Storage credits between the AWBA and the City of Peoria. Vice-Chair Jones seconded the motion. Chair Buschatzke asked for public comment. Alan Dulaney, City of Peoria expressed appreciation and strongly recommended the Commission vote to support the agreement. Chair Buschatzke asked for a vote and the agreement was unanimously approved.

Secretary Sorenson then moved to approve the purchase of 6,500 acre-feet of Central Arizona Project water long-term storage credits at a cost of \$1,507,415 using funds in the Maricopa County subaccount of the Arizona Water Banking Fund in CY 2018. Vice-Chair Jones seconded the motion. Chair Buschatzke asked for public comment. Hearing none, Chair Buschatzke asked for a vote and the purchase was approved.

Preliminary 2018 Draft Plan of Operation

Ms. O'Connell gave an overview of the 2018 Draft Plan of Operation (available online). She noted that for the first time since 2010, the AWBA will store water for interstate purposes, using 13,500 acre-feet of Nevada's unused apportionment. The AWBA is also planning to store an estimated 14,000 acre-feet for Arizona uses for a total of 27,500 acre-feet of water.

For Arizona storage, the Plan is limited by water availability in the Phoenix AMA, and by funding in the Pinal and Tucson AMAs. As a result of the legislative transfers of withdrawal fees and the reduction in available 4¢ tax revenues for 2018, the AWBA will only be able to store 8,100 acre-feet in the Pinal AMA. The remaining water is roughly split between the Phoenix and Tucson AMAs. All other remaining funds in those AMAs will be applied toward potential credit purchases.

Ms. O'Connell reviewed the water delivery and facility rates for 2018. Specific to interstate, she pointed out this rate includes a \$50 per acre-foot tax equivalency component that will be deposited into the Arizona Water Protection Fund. The amount expected is approximately \$670,000. Interstate storage costs are paid for by Nevada and total just over \$3.3 million and are estimated to result in approximately 12,560 acre-feet of credits. For Arizona uses, the AWBA proposes to expend approximately \$12.5 million to accrue an estimated 58,000 acre-feet of credits: just over 13,000 acre-feet through water storage and approximately 45,000 acre-feet of developed credits created

through other means including agreements for firming and credit purchases.

Chair Buschatzke indicated that no formal action is required. Instead, staff is seeking direction to schedule and hold public meetings on the Plan in conjunction with local Groundwater User Advisory Councils. The Commission provided such direction.

Governor's Water Solutions Project Update

Chair Buschatzke provided background information on the Governor's Water Solutions Project and a brief update relative to the AWBA including describing four concepts that have been forwarded from the plenary group to the Legislature to become part of a legislative package. One proposal provides that 4¢ tax monies not applied to CAWCD repayment and O&M obligations shall be made available to the AWBA upon the request of the Chair of the AWBA. Three proposals provide for expanded AWBA recovery and firming authority including (1) authorizing the AWBA to enter into recovery agreements with recovery partners where the AWBA can directly distribute long-term storage credits developed with 4¢ tax monies, (2) authorizing the AWBA to lease water for M&I and on-River firming responsibilities in addition to Indian firming obligations and (3) authorizing the AWBA to exchange long-term storage credits developed using 4¢ tax monies and withdrawals fees for credits stored in another location.

Secretary Sorensen expressed appreciation for the efforts of the ADWR, the Governor's Office and others for creating additional flexibility for the AWBA to conduct its business.

Chair Buschatzke asked that the legislative package be included as a future agenda item when it is ready.

Call to the Public

Chair Buschatzke asked if there were any public comments. Hearing none, the Commission adjourned at 11:14 a.m.